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HAROLD B. WILLEY

In the Supreme Court
OF THE
United States

OCTOBER TERM, 1955

No. 519

WILLIAM G. MEAGHER and INDUSTRIAL DEVELOPMENT,
Petitioners,

vs.

EASTERN IRON and METAL CO., LTD., and H. C. PATTERSON and PATTERSON CONSTRUCTION CO., LTD.,
Respondents.

PETITION FOR A WRIT OF CERTIORARI to the United States Court of Appeals for the Ninth Circuit.

LLOYD W. DINKELSPIEL,
14 Montgomery Street, San Francisco 4, California,
BERNARD H. LEVINSON,
328 Merchandise Mart Building, Honolulu, T. H.,
Attorneys for Petitioners.

CASPAR W. WEINBERGER,
14 Montgomery Street, San Francisco 4, California,
Of Counsel.

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Respondents.

PETITION FOR A WRIT OF CERTIORARI to the United States Court of Appeals for the Ninth Circuit.

Your petitioners, William G. Meagher and Industrial Development, respectfully pray that a writ of certiorari be issued out of and under the seal of this Honorable Court to review the judgment of the United States Court of Appeals for the Ninth Circuit filed and entered on the 8th day of September, 1955, and which affirmed a judgment of the Supreme Court of the Territory of Hawaii.

OPINIONS BELOW.

The first opinion of the Supreme Court of the Territory of Hawaii, entered April 25, 1952, is reported in 39 Haw. 346 and is printed in the Record (R. 58-77, 78). The second opinion of the Territorial Supreme Court, entered May 29, 1953 is reported in 40 Haw. 195 and is printed in the Record (R. 758-761). The final opinion of the same Court, entered on December 21, 1953, is reported in 40 Haw. 382, and is printed in the Record (R. 793-6). The opinion of the United States Court of Appeals for the Ninth Circuit appears in the Record (R. 820-824), but has not yet been released in the Federal Reporter, Second Series.

JURISDICTION.

The opinion and the judgment of the United States Court of Appeals for the Ninth Circuit were filed and entered on September 8, 1955.

On October 10, 1955, petitioners' petition for a rehearing, filed on October 4, 1955, was denied by order of the same Court.

On October 13, 1955 there was filed and entered an order of the United States Court of Appeals for the Ninth Circuit staying the issuance of the mandate of that Court, provided that a petition for a writ of certiorari was filed with this Honorable Court on or before November 14, 1955.

Jurisdiction to review this case upon a writ of certiorari is conferred upon this Court by 28 U.S.C. §1254(1).

QUESTIONS PRESENTED.

The questions presented by this petition are:

1. Whether or not it is a clear departure from ordinary legal principles for the Supreme Court of the Territory of Hawaii to set aside, disregard and ignore findings of fact by the Circuit Court of Hawaii based upon, and supported by, competent evidence which that trial Court saw and heard.

2. Whether or not the United States Court of Appeals for the Ninth Circuit has the power to reverse a decision of the Supreme Court of the Territory of Hawaii which does clearly depart from ordinary legal principles.

3. Whether or not the Court of Appeals is helpless to prevent the Supreme Court of the Territory from ignoring all of that Court's prior decisions on the question of the weight to be given the findings of fact of the Hawaiian trial Court, when those findings are based on conflicting testimony and are supported by competent and substantial evidence.

STATUTES AND RULES INVOLVED.

"28 U.S.C. §1254. Courts of appeals; certiorari; appeal; certified questions.

Cases in the courts of appeal may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree; . . ."

"28 U.S.C. §1293. Final decisions of Puerto Rico and Hawaii Supreme Courts.

The courts of appeals for the First and Ninth Circuits shall have jurisdiction of appeals from all final decisions of the supreme courts of Puerto Rico and Hawaii, respectively in all cases involving the Constitution, laws or treaties of the United States or any authority exercised thereunder, in all habeas corpus proceedings, and in all other civil cases where the value in controversy exceeds $5,000, exclusive of interest and costs. June 25, 1948, c. 646, 62 Stat. 929."

STATEMENT OF THE CASE.

This case was brought to the United States Court of Appeals for the Ninth Circuit in three separate appeals which were consolidated for hearing in that Court. For the convenience of this Court, and because the decision of the Court of Appeals decides these three appeals separately in its one opinion, the facts relating to each of the three appeals will be set forth separately here, although for the purposes of this petition, petitioners' argument will be directed only to the first appeal.

FIRST APPEAL.

This action was begun on October 22, 1948, by the filing of a bill in equity in the Circuit Court of the First Judicial Circuit for the Territory of Hawaii by respondent herein, Eastern Iron and Metal Co. against H. D. Patterson, Patterson Construction Co. Ltd., a Hawaiian corporation, William G. Meagher and Industrial Development, a California co-partnership. The latter two parties are the petitioners herein.

For convenience and unless otherwise noted respondent will be referred to herein as "Eastern", and petitioners as "Meagher", and "Industrial".

The bill in equity sought enforcement against Industrial as the only solvent party to a joint venture with Patterson Construction Co. Ltd., of a written agreement between Eastern and Patterson Construction Co. Ltd., under which the latter, on September 1, 1948 allegedly sold 1500 tons of cast iron scrap at $50 per ton to Eastern (Ex. 1). Of this tonnage, a bill of sale (which Eastern regarded as part of the contract) provided that 900 tons of cast iron scrap were to come from the Waimea Sugar Mill on the Island of Kauai, and the balance of 600 tons of cast iron scrap was to come from the Waianae Sugar Mill on the Island of Oahu (Ex. 1).

On August 1, 1948, a month before the execution of this alleged bill of sale, petitioner Industrial, a California partnership, entered, by oral agreement, into a joint venture with Patterson Construction Co. Ltd., a Hawaiian corporation, for the purpose of buying, preparing and selling certain cast iron scrap at particular locations in the Hawaiian Islands (R. 177, 436-7, 462).

Petitioner Meagher was attorney-in-fact for the partnership with general powers to do its business in the Hawaiian Islands although he had no financial interest in it (R. 199-200, 201).

A hearing was had on the application for injunctive relief, which by stipulation of the parties, was agreed to be a hearing on the merits.

After observing the witnesses and listening to all of the sharply conflicting testimony on the question as to

whether or not petitioners' motion to dismiss should be granted (R. 486, 646, 647, 665, 667) the trial Court, by oral decision (R. 678-688) (later confirmed by findings of fact and interlocutory decree (R. 50-56)), dismissed the petition as to both petitioners.

The trial Court found in effect that Patterson Construction Co. Ltd. had sold the cast iron at Waianae Mill to the joint venture on August 12, 1948, and that the Patterson Construction Co. Ltd. never had had title to the cast iron at Waimea Mill. On the contrary, the Court found that petitioner Industrial owned the Waimea Mill cast iron and that in fact the iron at Waimea was not part of the joint venture at the time petitioner, Industrial, purchased it (R. 53).

The trial Court also found (again on the basis of conflicting oral testimony which the trial Court saw and heard) that (a) Patterson had no authority to bind the joint venture on the later purported "sale" to respondent Eastern; (b) Patterson had made no representations to Eastern that he was acting for the joint venture; (c) Eastern, in dealing with Patterson, did not intend to deal with or rely upon the joint venture; (d) the $35,000.00 paid by Eastern to Patterson Construction Co. Ltd. was *not* to buy the scrap iron previously sold to the joint venture and to Industrial, but, on the contrary, was a payment by Eastern on account of previous sales by Patterson Construction Co. Ltd. to Eastern or was an advance to Reconstruction Company (R. 54).

The trial Court also found that Eastern was *not* an innocent bona fide purchaser of the cast iron in question

here and that the alleged "contract and bill of sale" on which respondent sued here were actually executed by Patterson while he was under duress and were not free and voluntary transactions (R. 54).

On appeal, the Supreme Court of Hawaii disregarded and set aside these findings, substituting its own views of the case and reversed the decree (39 Haw. 346, R. 58-77; see particularly R. 794). The decision on appeal (R. 78) remanded the case for "further proceedings to determine the nature and extent of the appropriate, just and equitable relief to be granted to the petitioner by final decree in its favor consistent with said opinion" (R. 78).

Petitioners appealed to the United States Court of Appeals for the Ninth Circuit under the provisions of 28 U.S.C. §1293. That Court affirmed this judgment of the Supreme Court of Hawaii, holding that even assuming that the Supreme Court of the Territory of Hawaii gave no weight to the opportunity of the trial judge to see and hear the witnesses, and even assuming that prior Hawaiian decisions required that weight be given to that opportunity and to the trial Court's findings, nevertheless, the decision of the Supreme Court of the Territory of Hawaii should be affirmed.

SECOND APPEAL.

Following the decision of the Supreme Court of Hawaii, entered on April 25, 1952, Meagher traveled to Hawaii (R. 727) and there, with his Hawaiian counsel, discovered

new evidence. His motion for new trial based upon this new evidence was (after the United States Court of Appeals for the Ninth Circuit remanded the case to Hawaii to permit him to file such a motion) denied by the Supreme Court of Hawaii (R. 758-761; 40 Haw. 195).

Petitioners appealed to the United States Court of Appeals for the Ninth Circuit under the provisions of 28 U.S.C. §1293. That Court affirmed the order of the Supreme Court of the Territory of Hawaii denying a new trial.

THIRD APPEAL.

When the first appeal was taken to this Court from the first decision of the Supreme Court of Hawaii (R. 58-77), no supersedeas bond was filed and Eastern set the matter for hearing in the trial Court to obtain a judgment carrying out the mandate of the Territorial Supreme Court. Pending this, petitioners moved for new trial as discussed above under "Second Appeal" (R. 773-5).

The trial Court, (not the trial judge who heard the case originally (R. 787)), attempting to comply with the mandate, gave judgment on September 17, 1952, jointly and severally against petitioners Industrial and Meagher, and Patterson, and Patterson Construction Co. Ltd., in favor of Eastern for $35,000 (R. 776, 777) after reciting that "the issue of petitioner's (Eastern's) right to recover the $35,000 from petitioners here is fully determined and no further proceedings are necessary as to this issue" (R. 776).

The decree, however, did reserve the right to hold further proceedings to determine additional relief to respondent.

Petitioners appealed from this decree. The Supreme Court of Hawaii affirmed as to that portion of the decree granting relief in the amount of $35,000 against petitioners (R. 793-796), and reversed as to the second portion of the decree reserving the right to grant respondent further relief (R. 796).

Petitioners appealed to the United States Court of Appeals for the Ninth Circuit under the provisions of 28 U.S.C. §1293. That Court affirmed the decision of the Territorial Supreme Court.

REASONS RELIED ON FOR GRANTING THE WRIT.

1. **The United States Court of Appeals for the Ninth Circuit has decided a federal question in a way that conflicts with applicable decisions of this Court.**
2. **The United States Court of Appeals for the Ninth Circuit has, by its affirmance, sanctioned such a departure by the Territorial Supreme Court from the accepted and usual course of judicial proceedings as to call for the exercise of this Honorable Court's power of supervision.**

Until this case was decided, the Hawaiian Supreme Court, in an unbroken line of decisions, had agreed that weight must be given the supported findings of trial Courts, even in cases in equity.

The Court of Appeals for the Ninth Circuit has said distinctly in its opinion in this case that if the Hawaiian Supreme Court has not accorded such weight to the trial

Court's findings, nevertheless when the case is appealed to the United States Court of Appeals, there is no manifest error because—and only because—this is the latest expression of the Hawaiian Supreme Court on its procedures, notwithstanding that the Hawaiian Supreme Court's refusal here to attach weight to the supported findings of the trial Court (1) does not profess to override the former decisions and practices of the Hawaiian Supreme Court; (2) later decisions of the same Court follow the old rule; and (3) the actual conduct of the Territorial Supreme Court in this case constituted a departure from the accepted and usual course of judicial proceedings.

1. The rule of manifest error.

In *Waialua Agricultural Co. v. Christian*, 305 U.S. 91, it was held by this Court that the Court of Appeals can only reverse decisions of the Supreme Court of Hawaii that are manifestly erroneous or that constitute "a clear departure from ordinary legal principles".

It is petitioners' contention that manifest error, requiring reversal by the United States Court of Appeal for the Ninth Circuit, *was* committed by the Hawaiian Supreme Court when that Court displaced, without giving them the slightest weight, the supported findings of the trial Court based upon conflicting evidence seen and heard by the trial Court.

2. The Hawaiian authorities.

While it is true that this was an equity case and hence the Territorial Supreme Court had the naked *power* to

upset the findings of the chancellor (*Watumull v. Ettinger,* 39 Haw. 185; *Manufacturers Life Insurance Co. v. von Hamm-Young Co.,* 34 Haw. p. 288, 303; *Robinson v. McWayne,* 35 Haw. 689, 739), nevertheless it is well established that there is a presumption that an equity case, as well as others, has been correctly decided below (*Sumner v. Jones,* 22 Haw. 391, 394), and where the findings rest upon the credibility of witnesses and the weight of oral testimony and the inferences to be drawn therefrom, *great weight* should be given to findings and decisions of the chancellor who tried the case.

Jellings v. Garcia, 29 Haw. 698, 701:

"It has been repeatedly held by this court that when *in an equity suit* an issue of fact is decided upon conflicting testimony, *great weight will be given by this court to the finding of the trial court,* because the latter saw and heard the witnesses and was in a better position to pass upon their credibility and to weigh the evidence than this court is." (29 Haw. at 701.) (Emphasis supplied.)

Hospital v. Wodehouse, 33 Haw. 846, at 857:

"While *an appeal from a decree in equity* brings the entire record up for scrutiny and review, and this court has the power to weigh evidence and make its own findings of fact, it is ever mindful that the *findings of fact in the trial court, where witnesses are under examination and observation and where actions sometimes speak clearer than recorded words, are entitled to great weight and should not be overthrown unless the record is clearly convincing that they are not in accordance with the evidence* and it is not of controlling importance that the trial court may have

> found some facts which could not be sustained by legal evidence in the record. If the record shows the decree to be correct, it will be affirmed on appeal. These principles have long been established and adopted in a long line of cases in this court." (Emphasis supplied.)

In *Robinson v. McWayne,* 35 Haw. 689, 739, it is again emphasized that in equity appeals findings of fact of the circuit Court judges are entitled to great weight, particularly where the evidence is conflicting.

In *Hung Chin Chin v. Fook Hing Tong,* 38 Haw. 616, 624, the Hawaiian Supreme Court said:

> "This court adopts the established rule that issues of fact, the determination of which by the trial court is dependent solely or in a great degree upon the weighing of conflicting testimony and the credibility of witnesses are entitled to great weight on review (citing cases)."

The Court goes on to say that this rule, of course, does not preclude a review of the entire case, with independent findings of fact and rulings, *should the record on review so warrant.*

There is an unbroken line of Hawaiian decisions that it is peculiarly the province of the chancellor, who heard and saw the witnesses testify, to determine the truth of the controversy; and that the trial court's findings of fact in equity cases, based on conflicting testimony, will be given great weight, and will not be disturbed on review "unless clearly against the preponderance of evidence". See for example:

Bank of Hawaii v. Char & Crozier, 40 Haw. 463, decided March 4, 1954;
Chow Tim & Tanabe v. Lopez, 40 Haw. 55, 60;
DeMello v. DeMello, 34 Haw. 922, 933-4;
In re Pedro, 32 Haw. 751, 753 (the findings of the trial court, who saw and heard the witnesses, will generally not be disturbed even though the Supreme Court has the power to review the findings);
Hokkaia v. Kealoa, 30 Haw. 446, 449-50;
Lymer v. Kumalae, 29 Haw. 392, 400;
Nawahie v. Goo Wan Hoy, 26 Haw. 137;
McCandless v. Castle, 25 Haw. 22;
Wilder v. Pinkham, 23 Haw. 571, 572;
DeSouza v. Soares, 22 Haw. 17.

3. The decision of the Hawaiian Supreme Court disregarded all other Hawaiian cases and clearly departed from established legal principles.

No one can read the record in this case without an immediate realization that the decision of the Territorial Supreme Court necessarily rested upon a determination as to which of two, and sometimes three, conflicting stories should be believed. No one can read the record in this case and the decision of the Supreme Court of Hawaii without an immediate realization that the Territorial Supreme Court merely substituted its own belief for that of the chancellor as to who was telling the truth, and that the reviewing Court simply disregarded evidence and well supported findings of fact by the trial Court which did not conform to its belief. This is confirmed by

the final opinion of the Territorial Supreme Court (R. 794).[1]

It is submitted that this complete failure to give heed to the presumption that the case was correctly decided by the chancellor and the complete lack of weight given to the chancellor's evaluation of the oral testimony which he alone had heard, and the complete disregard of his findings, constitute manifest error, requiring reversal. The long line of cited authorities testify to the extreme temerity (noticeably lacking, in the instant matter, in the Supreme Court of Hawaii) of all reviewing Courts to interfere in any way, in cases at law or in equity, with findings of trial Courts based upon competent, substantial and conflicting evidence.

4. The decision of the United States Court of Appeals for the Ninth Circuit effectively repeals litigants' statutory right to appeal from the Hawaiian Supreme Court.

The decision of the United States Court of Appeals for the Ninth Circuit (R. 820-824) quotes from the final opinion of the Territorial Supreme Court the statement by that Court that it "completely reversed" the opinion of the trial Court and the further statement that this was not done "for any error of trial; on the contrary, the reversal pertained to findings of fact and conclusions

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[1] "That decree (referring to the decree of the trial court) was completely reversed by this court. But there is nothing in this court's prior opinion that could be construed as reversing such decree for any error of trial. On the contrary, the reversal pertained to findings of fact and conclusions of law made in the decree after the close of trial. In reversing the decree, *this court displaced those findings and conclusions with ones of its own of contrary import and remanded the cause . . .*" (R. 794.) (Emphasis supplied.)

of law made in the decree after the closing of the trial" (R. 821).

The Court of Appeals then goes on to say that even assuming that the Territorial Supreme Court gave *no* weight to the opportunity of the trial judge to see and hear the witnesses, *"and that prior Hawaiian decisions required it,* we cannot say that the Supreme Court lacks the power to overrule its prior decisions in the local law of procedure." (Emphasis supplied; (R. 822)).

Petitioners urge that such a holding effectively destroys the right of litigants to appeal to the United States Court of Appeals from decisions of the Territorial Supreme Court, a right which is granted to litigants by the law of the United States, 28 U.S.C. §1293.

Such a holding means that any decisions which the Territorial Supreme Court wishes to give, whether consistent with, or contrary to, its own established prior decisions, or "ordinary legal principles", will be upheld by the United States Court of Appeals on the basis of *Waialua Agricultural Company v. Christian,* 305 U.S. 91.

Petitioners recognize of course the rule of the *Waialua* case, supra, but contend that there is still room, consistent with that decision, for the reversal by the United States Court of Appeals of (1) decisions of the Territorial Supreme Court which constitute a clear departure from "ordinary legal principles", (and petitioners reiterate their contention that the decision of the Territorial Supreme Court in this case constitutes such a departure), and (2) decisions of the Territorial Supreme Court in conflict with its own established principles.

Petitioners contend that whether or not the decision of the Territorial Supreme Court in this case was actually a decision involving the "local law of procedure", as the United States Court of Appeals classified it on page 3 of its opinion (R. 802), nevertheless the decision of the Court of Appeals establishes a startling conclusion:—In permitting the Territorial Supreme Court to ignore all of its prior decisions on the question of the weight to be given the trial Court's opportunity of seeing and hearing witnesses, and the weight to be given the findings of fact of a trial Court, (when those findings are supported by competent evidence), it has determined that there is *no decision* of the Territorial Supreme Court that would be *reversed* by the United States Court of Appeals, (except on a constitutional question), despite the continued right of litigants to appeal such decisions to the United States Court of Appeals. In every other instance the decision of the Hawaiian Court would be its "last" utterance and thus a decision on its own "procedure" which would not be assailable. What then becomes of the doctrine of manifest error? Or more important, of the right of appeal?

5. The decision of Hawaiian Supreme Court here does not overrule its prior decisions; it is a clear departure from them.

There is a substantial difference between a "last expression" which simply *disregards* established principles of law, and a "last expression" which formally and for good reason asserts a *change* in the law.

Petitioners urge that in this case the Hawaiian Supreme Court actually did not "overrule its prior decisions in

the local law of procedure", but rather, *disregarded* them in *this* case *only*. The fact that the Territorial Supreme Court did *not* overrule all of its prior decisions is shown by its later holdings (rendered after the decision in this case) that the trial Court's findings of fact in equity cases, based on conflicting testimony, will be given great weight and will not be disturbed on review unless clearly against the preponderance of evidence. See, e.g. *Bank of China v. Char & Crozier,* 40 Haw. 463 decided March 4, 1954, and *Chow Tim & Tanabe v. Lopez,* 40 Haw. 55, 60 (decided after the first opinion of the Hawaiian Supreme Court here).

There has of course been no suggestion by either the Territorial Supreme Court or by respondent that any of the trial Court's findings were either unsupported, or "clearly against the preponderance of the evidence". On the contrary, it is clear that *each* finding of the trial Court is fully supported by competent evidence.

The Territorial Supreme Court *in this case* simply ignored and refused to follow its prior decisions and ignored and refused to follow the perfectly well-settled and universal rule concerning the weight to be given to supported findings of trial Courts.

6. The Court of Appeals' sanction of this clear departure by Hawaiian Supreme Court is so far reaching as to require the exercise of the Supreme Court's power of supervision.

The decision of the Territorial Supreme Court, if it is allowed to stand, constitutes a completely new, and, so far as petitioners are able to ascertain, unique method

(even in equity cases in Hawaii) of deciding appeals from decisions previously made by trial Courts which have the opportunity to see and hear conflicting testimony.

It must be remembered that the decision of the United States Court of Appeals admittedly involves the assumption (previously quoted) that weight was *not* given to the findings and that the Hawaiian decisions actually *required* that such weight be given (R. 822—p. 3 Advance Sheet opinion of United States Court of Appeals).

Both assumptions of the United States Court of Appeals are unquestionably correct. The result of such assumptions when measured against the decision of the United States Court of Appeals is that the Territorial Supreme Court is perfectly free in this, and of course in all future cases, to pay no attention whatever to the findings of the trial Court, and is perfectly free to substitute its own opinion as to which of two conflicting witnesses was telling the truth. This completely changes all theories and practice of modern jurisprudence and, stated in its simplest terms, means that when an appeal is taken to the Supreme Court of Hawaii in an equity case, the decision on the facts will be whatever the Territorial Supreme Court thinks it should be, and the fact that the case has been tried below will mean absolutely nothing. (Indeed, it will scarcely be worth the litigant's costs to have a transcript of record printed since the Territorial Supreme Court will be perfectly free, if the decision of the United States Court of Appeals stands, to ignore whatever portions of that record it wishes, *for that is exactly what happened in this case.*)

The result herein reached means that the Territorial Supreme Court now has the power to make new findings in equity appeals in *all* cases and in *all* circumstances, *without* considering in any way the findings of fact of the trial Court even though those findings are based in each case upon competent and more-than-adequate supporting evidence. It is submitted that this is a power which is not possessed or exercised by any other Appellate Court and is contrary to the accepted and usual course of judicial proceedings.

If the Territorial Supreme Court is to be permitted to disregard all of its former decisions and the established principle in all other jurisdictions, and to add to its power so as to enable it to disregard and attach no weight whatever to the findings and conclusions of the trial Court (even though these findings and conclusions are supported in each case by competent evidence), and if the United States Court of Appeals is powerless, because of this doctrine of "last expression", to require the Territorial Supreme Court to follow, and not depart from, established legal principles, then it is respectfully submitted that the statute permitting appeals from the Territorial Supreme Court to the United States Court of Appeals, practically speaking (and excluding constitutional questions) has been repealed by the decision in this case.

CONCLUSION.

Manifest error having been committed by the Supreme Court of the Territory of Hawaii, and that Court having departed so far from the accepted and usual course of judicial proceedings and from ordinary legal principles, and that manifest error having been affirmed, and that departure having been sanctioned by the United States Court of Appeals for the Ninth Circuit in its decision, it is respectfully submitted that this petition should be granted by this Honorable Court so that the said decision of the United States Court of Appeals for the Ninth Circuit may be reviewed and reversed by this Honorable Court.

Dated, San Francisco, California,
November 11, 1955.

Respectfully submitted,
LLOYD W. DINKELSPIEL,
BERNARD H. LEVINSON,
Attorneys for Petitioners.

CASPAR W. WEINBERGER,
Of Counsel.

(Appendix Follows.)

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Appendix

United States Court of Appeals
for the Ninth Circuit

WILLIAM G. MEAGHER and INDUSTRIAL DEVELOPMENT, *Appellants,* vs. EASTERN IRON AND METAL CO., LTD., and H. C. PATTERSON, and PATTERSON CONSTRUCTION CO., LTD., *Appellees,* and EASTERN IRON AND METAL CO., LTD., *Cross-Appellant,* vs. WILLIAM G. MEAGHER, INDUSTRIAL DEVELOPMENT, and H. C. PATTERSON and PATTERSON CONSTRUCTION CO., LTD., *Cross-Appellee.*	No. 13,556 Sep. 8, 1955

Appeals from the Supreme Court for the Territory of Hawaii.

Before: DENMAN, Chief Judge, and ORR and CHAMBERS, Circuit Judges.

Denman, Chief Judge:

Three appeals were submitted for our consideration.

I. Meagher and Industrial Development, hereafter Meagher, appeal from a decree of the Supreme Court for the Territory of Hawaii. That court reversed a decree of the Circuit Court of the First Judicial Circuit which dis-

missed the petition of Eastern Iron and Metal Co., hereafter Metal Co., for a constructive trust and other equitable relief against Meagher, Patterson Construction Co., Ltd., hereafter Patterson Co., and H. E. Patterson.

The relief sought by Metal Co. was based upon allegations of the fraudulent conduct of Meagher, Patterson and Patterson Co., in disposing of certain scrap iron to other persons, which the Patterson Co. had agreed to sell to Metal Co. Patterson Co. is insolvent and Patterson is alleged to have controlled it in its alleged wrongful conduct.

The Circuit Court, on conflicting testimony, some viva voce, made its findings that none of the charged parties had acted fraudulently and dismissed the petition. The Supreme Court treated the appeal as a trial de novo, which is its admitted power in equity cases, and set aside the Circuit Court's findings of absence of fraud, made its findings of fraud participated in by Meagher, Patterson and Patterson Co. and returned the case to the Circuit Court to determine the damages.

One of the questions before us is whether the Supreme Court had the legal power so to disregard the Circuit Court's findings and substitute its own. This is a question of law upon which the Hawaiian Supreme Court can be reversed only if its decision is "manifestly erroneous," the United States Supreme Court so holding in Waialua Agricultural Co. v. Christian, 305 U.S. 91.

Appellants claim first that it was manifest error for the Hawaiian Supreme Court to overturn the findings of the trial court since the evidence was based on conflicting

testimony. Appellants concede that the Supreme Court had *power* to make new findings on an appeal in equity under Hawaiian practice, but contend that it was manifest error to overturn the findings without giving due deference and weight to the trial court's opportunity to see and hear witnesses. The opinion of the Supreme Court contains no reference to the trial court's findings and in a later opinion, hereafter considered, the early opinion is explained as follows: "That decree was completely reversed by this court. But there is nothing in this court's prior opinion that could be construed as reversing such decree for any error of trial. On the contrary, the reversal pertained to findings of fact and conclusions of law made in the decree after the close of trial." This does not establish that the court gave *no* weight to the opportunity of the trial judge to see and hear witnesses, nor can we assume it did give it full weight in reversing.

Even assuming that such weight was not given and that prior Hawaiian decisions required it, we cannot say that the Supreme Court lacks the power to overrule its prior decisions in the local law of procedure.

There is no merit in appellants' contention that Federal Rule 52(a) is here relevant. The Federal Rules of Civil Procedure govern only United States District Courts. F.R.C.P. 1. They do not apply to the Hawaiian Territorial Courts and have not been made applicable to appeals to the Supreme Court of Hawaii by its legislature. Fong v. Glover, 197 F.2d 710 holds no more than that the rules apply as to the method of taking an appeal *from* the Hawaiian Supreme Court *to* this Court. We affirm the decision in this appeal.

II. Meagher and Industrial Development appeal from an order of the Supreme Court, denying their motion for a new trial by that Court upon which it would take further evidence, or remand the case to the Circuit Court for that purpose, on the ground of newly discovered evidence.

Part of the claimed newly discovered evidence is stated in an affidavit of Patterson, who testified at the trial that he had participated in the fraud on Metal Co. In the affidavit Patterson denied that any fraud had been perpetrated on Metal Co. He claimed he and Metal Co. had committed fraud upon Meagher and Industrial Development Co., which he concealed at the trial in the Circuit Court, which fraud would tend to show that Meagher and the Development Co. were not liable for the judgment against them.

The Supreme Court held that it would not believe Patterson's statements of his second fraud and denied consideration of this affidavit. We can see no manifest error of the Supreme Court in so acting.

The other claimed newly discovered evidence is the affidavit of one Levinson to the effect that he heard Caplan, Hawaiian agent of Metal Co., say to Rosenthal, its president, that there were not 1,500 tons of scrap iron in the entire Hawaiian Islands, thus tending to show that Metal Co. was not defrauded. Caplan declined to sign an affidavit embodying what Levinson claimed he heard him say. Levinson's alleged interview with Caplan was on August 22, 1952. Four years before at the trial of the case in the Circuit Court Caplan was examined and cross-examined at length as to the amount of scrap on the Hawaiian Islands and described actual scrap transactions exceeding the 1,500

tons. We can find no abuse of discretion, much less manifest error, in the refusal of the Supreme Court to consider this hearsay affidavit as warranting a new trial.

The appeal from the order denying a new trial is affirmed.

III. (a) Metal Co. appeals from a decree of the Supreme Court refusing it further relief above the $35,000 judgment in its favor.

In reversing the Circuit Court the Supreme Court returned the case to the Circuit Court to determine the amount of damage Metal Co. had sustained. Metal Co. moved for a partial decree for the $35,000 reserving the right at later proceedings to claim additional monetary damages and relief and the Circuit Court so acted.

Meagher, Patterson, Patterson Co. and Industrial Development appealed and the Supreme Court sustained the judgment for $35,000 but held that Metal Co. was entitled to no further relief.

Metal Co. contends that the Supreme Court's remanding order permitted the ascertainment of additional damages. The Supreme Court's opinion analyzed the proceedings up to the remand and its mandate and held the latter entitled Metal Co. to the $35,000 and that the Circuit Court had no power to entertain further proceedings. We cannot say that there is manifest error in the Supreme Court's interpretation of its mandate and affirm the judgment in this appeal.

(b) Meagher and Industrial Development appeal from the second decree of the Supreme Court affirming the decision of the Circuit Court on its remanded hearing

awarding to Metal Co. damages against them. It contends that the original trial was not on the merits of the question of damages and hence the trial on remand had the same character.

This contention is contrary to the stipulation of appellants, whose counsel stated:

> "We would have no objection to the Court entering *its final decree* and the Court incorporating in that decree a finding that the respondents are entitled to damages on the injunction bond but leaving the actual computation and assessment of those damages until the case had been remanded from the Supreme Court; and if the appeal is unsuccessful, the damages would then be determined. [Emphasis added.]"

This stipulation was concurred in by Eastern and accepted by the court, the decree, while a final determination of the case on the merits, being denominated "interlocutory" because of this reservation of jurisdiction.

Appellants' understanding that the trial was on the merits is further shown by the following statement made by its own counsel at the trial:

> "Mr. Russell: As I understand it, the decree, as finally drawn, will incorporate in it the dissolution of the temporary injunction *as well as the determination of the case on its merits.*
> "The Court: Yes • • • [Emphasis added.]"

That this was the understanding of Eastern as well is shown by the following statement from the transcript:

> "Mr. Berman (co-counsel for Eastern at the trial): In other words, this is being treated in the eyes of the Court as an actual hearing on the merits?

"The Court: Yes. As well as on the motion. That was all gone into."

The decision of the Supreme Court is affirmed in this appeal.

(Endorsed:) Opinion. Filed Sep. 8, 1955.
Paul P. O'Brien, Clerk.

United States Court of Appeals
for the Ninth Circuit

WILLIAM G. MEAGHER and INDUSTRIAL DEVELOPMENT, *Appellants,* vs. EASTERN IRON AND METAL CO., LTD., and H. C. PATTERSON, and PATTERSON CONSTRUCTION CO., LTD., *Appellees,* and EASTERN IRON AND METAL CO., LTD., *Cross-Appellant,* vs. WILLIAM G. MEAGHER, INDUSTRIAL DEVELOPMENT, and H. C. PATTERSON and PATTERSON CONSTRUCTION CO., LTD., *Cross-Appellee.*	No. 13,556

JUDGMENT

Appeals from the Supreme Court for the Territory of Hawaii.

This cause came on to be heard on the Transcript of the Record from the Supreme Court for the Territory of Hawaii, and was duly submitted.

On consideration whereof, it is now here ordered and adjudged by this Court, that the decision of the said Supreme Court in this cause be, and hereby is affirmed.

(Endorsed:) Judgment.

Filed and entered: September 8, 1955.

Paul P. O'Brien, Clerk.

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IN THE

Supreme Court of the United States

October Term, 1955

No. .....

WILLIAM G. MEAGHER and INDUSTRIAL DEVELOPMENT,
Petitioners,

vs.

EASTERN IRON AND METAL CO., LTD., and H. C. PATTERSON and PATTERSON CONSTRUCTION CO., LTD.,
Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

Brief of Respondent, Eastern Iron and Metal Co., Ltd., In Opposition.

Your respondent, Eastern Iron and Metal Co., Ltd., herewith files its brief in opposition to the petition for writ of certiorari to the United States Court of Appeals for the Ninth Circuit filed by William G. Meagher and Industrial Development.

Respondent, Eastern Iron and Metal Co., Ltd., for convenience and unless otherwise noted will be referred herein as "Eastern," William G. Meagher as "Meagher," Industrial Development as "Industrial," H. C. Patterson as "Patterson," and Patterson Construction Co., Ltd., as "Patterson Corporation."

Preliminary Statement.

Respondent herein wishes to emphasize at the outset that petitioners do not appear to contend in their petition herein that the decision of the Supreme Court of the Territory of Hawaii, herein referred to as the "Supreme Court of Hawaii," insofar as said decision is based upon its own findings and its own interpretation of legal instruments, is manifestly erroneous, or that the findings of the Supreme Court of Hawaii are not supported by evidence. It is therefore the position of Eastern that the true question herein presented may be stated as follows:

Question Presented.

Where the Supreme Court of Hawaii in an equity case, pursuant to its power under Hawaiian law to independently weigh the evidence and to make its own findings thereon, does in fact formulate its own findings and make its own interpretation of legal instruments, contrary to those of the lower Territorial Court, should the decision be reversed notwithstanding:

(a) That the findings of the Supreme Court of Hawaii are amply supported by the evidence and petitioners do not contend to the contrary, and

(b) That petitioners do not contend that the decision of the Supreme Court of Hawaii herein complained of, insofar as said decision is based upon its own findings and its own interpretation of legal instruments, is manifestly erroneous or contrary to legal principles.

Statement of the Case.

On October 22, 1948, Eastern filed a bill in equity for injunction and other relief in the Circuit Court of the First Judicial Circuit of the Territory of Hawaii. The bill alleged that on September 1, 1948, Patterson, representing Patterson Corporation, entered into a contract with Eastern for the sale and delivery to Eastern of 1500 tons of cast iron scrap metal located in Hawaii, F.O.B. rail cars, Los Angeles, at $50.00 per ton; that Eastern paid $35,000 in advance to Patterson Corporation as a partial payment thereon; that Meagher, Industrial, Patterson, and Patterson Corporation entered into a plan to defraud Eastern of said scrap and to convert same to their own use and in furtherance of their said plan said parties had diverted and were diverting the scrap to their own use [R. 3-16].

Following a trial of the issues, the Circuit Judge on April 19, 1949, found against Eastern and entered a decree dismissing the bill in its entirety [R. 50-56], from which decree Eastern appealed to the Supreme Court of Hawaii.

The Supreme Court of Hawaii, on April 25, 1952, in a lengthy opinion in which the testimony of the witnesses, including those of petitioner, Meagher, was discussed and analyzed, and the written instruments introduced at the trial interpreted, made its own findings and reversed the decision of the trial court. The decision of the Supreme Court of Hawaii was a unanimous decision and is re-

ported in 39 Haw. 346. A copy of this opinion and decision is set forth in the appendix to this brief and also in the record at pages 58 to 78. The Supreme Court of Hawaii found, *inter alia,* that Eastern had entered into the contract to purchase 1500 tons of cast iron scrap at the market price of $50.00 per ton and had paid $35,000.00 in cash as an advance payment thereon, said sum never having been returned or refunded; that a joint venture had been formed between Patterson Corporation and Industrial a month before the sale of the scrap to Eastern; that Patterson Corporation had transferred all of its scrap, of the approximate value of $97,158.10 to such joint venture; that the sale of the scrap iron to Eastern was a sale within the scope of said joint venture and was binding upon both said joint venturers; that neither such joint venturer ever had any intention of complying with the terms of the sale of the scrap iron to Eastern but on the contrary were acting to defraud Eastern by intentionally misapplying and converting cast iron scrap in contravention of the contractual rights and title of Eastern; that Meagher was liable for the furtherance of that fraud by also participating in the misapplication and conversion of such scrap as agent and sole representative in the Territory of Industrial if not its *alter ego* solely responsible for its breach, the Supreme Court of Hawaii holding Patterson, Patterson Corporation, Meagher and Industrial to be jointly and severally liable to Eastern for its damages. The decision of the Supreme Court of Hawaii concluded with its mandate as follows:

> "Accordingly, the interlocutory decree is reversed and the cause remanded below for further proceedings to determine the nature and extent of the appropriate, just and equitable relief to be granted to the petitioner (Eastern) by a final decree in its favor consistent with this opinion." [R. 77.]

Meagher and Industrial, petitioners herein, appealed to the United States Court of Appeals for the Ninth Circuit from this decision of the Supreme Court of Hawaii. Neither Patterson nor Patterson Corporation appealed to such court. That court affirmed the decision of the Supreme Court of Hawaii.

This is the first appeal referred to in the petition and is the only appeal to which petitioners' argument in their petition for writ of certiorari is directed (P. 4 of Pet.).

Following the decision of the Supreme Court of Hawaii on the first appeal and for the purpose of carrying into effect the mandate of the Supreme Court of Hawaii, no supersedeas bond having been filed by Meagher or Industrial, Eastern moved in the trial court for a partial decree in the amount of $35,000.00 and on September 17, 1952, the Circuit Judge entered a partial decree in that amount in favor of Eastern [R. 776-777].

The Circuit Court in said decree referred to the fact that the Supreme Court of Hawaii had found that Eastern was defrauded of $35,000.00 by petitioners herein, Meagher and Industrial, and by Patterson and Patterson Corporation, and that the issue of Eastern's right to recover this sum from such defendants was fully determined and no further proceedings were necessary as to that

issue [R. 776]. Meagher and Industrial appealed to the Supreme Court of Hawaii from said decree [R. 777-778].

The Supreme Court of Hawaii by opinion dated December 21 1953 [R. 791-796] affirmed that portion of the trial court's decree awarding Eastern $35,000.00, the Supreme Court saying:

> ". . . it is evident from the face of the record and from this court's prior opinion that the amount of damages assessed at $35,000 is the sum which the petitioner (Eastern) paid on the breached contract as a down payment and for which it has never been repaid or otherwise compensated. In correlation, a review of the record reveals that the uncontroverted evidence supports the decree in so far as it assesses the petitioner's (Eastern's) damages for breach of contract at $35,000." [R. 795.]

Petitioners appealed from this decision to the United States Court of Appeals for the Ninth Circuit, which Court, in the opinion appended to the petition, affirmed such decision. This is the so-called "Third Appeal" referred to in the petition and is referred to herein since the United States Court of Appeals disposed of this appeal in its said opinion and because the above-quoted language of the Supreme Court of Hawaii specifically shows that such Court once again reviewed the trial record and the evidence. Petitioners have not argued this appeal in their petition (See p. 4 of Pet.)

After the decision of the Supreme Court of Hawaii on the first appeal and while the appeal to the United States Court of Appeals from that decision was pending, petitioners, claiming to have discovered new evidence pur-

portedly resulting from alleged interviews between Meagher and the same persons who had testified at the trial, or between Meagher's Hawaiian counsel and such persons, such interviews having taken place over 3½ years after the trial, filed a number of motions in the United States Court of Appeals seeking a new trial and other relief. This so-called new evidence consisted of additional statements allegedly made by some of the same witnesses who had testified at the trial.

That Court remanded the cause to the Supreme Court of Hawaii for the limited purpose of permitting petitioners to file said motions in that court. Said motions were filed, briefed and argued and on May 29, 1953, by a *per curiam* decision of the Supreme Court of Hawaii reported in 40 Haw. 195 and appearing in the record at pages 758 to 761, dismissed the motion as being without foundation and without merit. Petitioners appealed to the United States Court of Appeals for the Ninth Circuit from the denial of such motions. That Court affirmed the decision of the Supreme Court of Hawaii denying such motions. The decisions and appeals pertaining to such motions are referred to herein since the United States Court of Appeals decided same in the one opinion appended to the petition herein, and also because the decision of the Supreme Court of Hawaii shows that such Court compared the testimony offered in the motions to that presented by the same witnesses at the trial, thus once again reviewing the record. This is the so-called "Second Appeal" referred to in the petition. Petitioners have not directed their argument to this appeal (Pet. p. 4).

ARGUMENT.

I.

Petitioners' Contention That the Supreme Court of Hawaii Did Not Give Weight to the Testimony of Petitioners' Witnesses and to the Findings of the Trial Judge Is Not Supported by the Record.

Petitioners contend that the Supreme Court of Hawaii did not give due weight to the opportunity of the trial court to see and hear witnesses or to the findings of the trial court, all of their other arguments flowing from this wholly unsupported and unwarranted premise.

This contention is not supported by any reference to the record. To the contrary it affirmatively appears from the record and from the opinion of the Supreme Court of Hawaii attached to this brief as an appendix that such Court did in fact carefully analyze and consider the evidence, written contracts and findings of the trial court and concluded that its ultimate duty to render a just decision required it to formulate its own findings and to reverse the decree of the lower court.

The manifest inequity of the trial court's decision is shown by the fact that such decision left Eastern not only without any portion of the scrap metal which it had purchased and for which it had obtained a bill of sale, but also left Eastern without the right to damages, including the sum of $35,000.00 which the Supreme Court of Hawaii found Eastern had theretofore paid on account of the purchase price of the scrap and which sum admittedly has never been returned to it.

Petitioners' contention that the Supreme Court of Hawaii did not give weight to the testimony of witnesses is, it is submitted, entirely unwarranted in view of the

detailed analysis and résumé thereof in its said lengthy opinion appended hereto, the greater part of which is devoted to a careful and detailed analysis of the written contracts and of the testimony, including that of petitioners' witnesses, Patterson and Meagher, and the testimony of Al Caplan, called as a witness by both sides. Petitioners called no other witnesses as to controverted matters. Upon reviewing the testimony of all of these witnesses and the documents the Supreme Court of Hawaii found that the undisputed evidence, *largely adduced by the petitioners themselves,* had proved the material allegations of Eastern's bill for relief in the trial court. The Supreme Court of Hawaii also found that Patterson, the main witness for Meagher and Industrial, had admittedly defrauded Eastern and that Meagher, a petitioner herein, had participated in the fraud.

The United States Court of Appeals carefully considered and rejected the contention of petitioners that the Supreme Court of Hawaii did not give weight to the trial Court's opportunity to see and hear the witnesses, the United States Court of Appeals stating, with respect to the reversal by the Supreme Court of Hawaii of the findings of fact and conclusions of law made by the trial Court that

> "This does not establish that the court (Supreme Court of Hawaii) gave *no* weight to the opportunity of the trial judge to see and hear witnesses. . . ." (Emphasis by the Court.) (P. iii of Appendix to Petition.)

Petitioners' contention that the Supreme Court of Hawaii ignored the trial Court's findings is entirely unwarranted. The opinion of the Supreme Court of Hawaii appended to this brief shows on its face that

such court carefully analyzed the subject matter of such findings, holding in effect that with two exceptions hereinafter noted such findings were either based on erroneous interpretations of the written instruments by the trial Court or were otherwise in error. The contention of petitioners that the Supreme Court of Hawaii ignored the trial Court's findings or was powerless to disregard same is especially incomprehensible in view of the fact that it appears from the face of the opinion of the Supreme Court of Hawaii in its decision on the first appeal appended to the petition herein that petitioners themselves contended in such appeal that the trial Court had erred in making two findings and tnat the Supreme Court of Hawaii should reverse such findings. As appears from the opinion of such Supreme Court, that court carefully considered said contentions and upheld such findings.[1]

Petitioners' contention that the Supreme Court of Hawaii was powerless to make findings contrary to those of the trial Court is not only contrary to Hawaiian law (see later portions of this brief) but overlooks the fact that the findings of the Supreme Court of Hawaii were based to a large extent upon its interpretation of two written contracts introduced by petitioners as embodying the terms of the oral joint venture agreement in effect at the time the scrap in question was sold to Eastern. The

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[1]Petitioners herein contended in such appeal that the trial court erred in finding as it did that Eastern had no adequate remedy at law or that Eastern was entitled to sue in the Territorial Court. The Supreme Court of Hawaii discussed both of these contentions and said: "The first finding is patently a sound one under all the facts and circumstances of this case inclusive of the allegations in the bill itself. Likewise is the second under the principles enunciated by this court in *Cannell & Chaffin v. Deering*, 26 Haw. 74. . . ." [R. 77, and p. 17 of Appendix to this Brief.]

Supreme Court of Hawaii analyzed both of these agreements and interpreted each as authorizing the sale of the scrap as a binding obligation of the joint venture without the consent of the other joint venturer. While the trial Court interpreted these agreements differently, the Supreme Court was entitled to make its own interpretation of legal documents, such interpretation involving a question of law rather than fact.

Watumull v. Ettinger, 39 Haw. 185;
MacKenzie v. King, 30 Haw. 230.

It would appear to be manifestly absurd to argue that the interpretation of such legal instruments by a single judge during the heat of a trial should be accorded greater weight than the interpretation thereof by the unanimous decision of the Supreme Court of Hawaii after a careful and unhurried study and analysis of the instruments and a study of pertinent authorities, cited and referred to by the Territorial Supreme Court in its opinion.

It is therefore crystal clear that there is nothing in the record to support petitioners' contention that the testimony of their witnesses or the trial Court's findings were ignored or not considered.

The Statement in the opinion of the United States Court of Appeals upon which petitioners so heavily rely that "even assuming that such weight was not given and that prior Hawaiian decisions requires it, we cannot say that the Supreme Court lacks the power to overrule its prior decisions in the local law of procedure" is not only, it is submitted, a correct statement of the law (see *Michigan Trust Co. v. Ferry,* 228 U. S. 346, 354) but was merely an additional ground for the decision of affirmance.

II.

The Object of the Petition Is to Have This Court Interfere in a Purely Local Matter of Procedure.

Petitioners on pages 6 and 7 of their petition set forth the substance of the findings of the Territorial trial Court on some of the issues and the interpretation by that court of the written instruments claimed to have embodied the terms of the oral joint venture.

It should be noted that petitioners do not set forth the findings of the Supreme Court of Hawaii on these same or on any other issues or the interpretation by that court of such legal instruments. Nor do petitioners contend in their petition herein that the findings of the Supreme Court of Hawaii were not amply supported by the evidence or that the interpretation by that court of the two written joint venture agreements was incorrect. Indeed, petitioners do not even contend in their petition that the findings of the trial court were supported by the preponderance of the evidence.

It is apparent from an examination of the petition that petitioners' basic and indeed only real contention is, in essence, that since there was a conflict in the evidence, and irrespective as to where the preponderance of the evidence lay, that so long as the findings of the lower court were supported by "competent evidence", that the Supreme Court of Hawaii, irrespective as to the equities of the case or the injustice of the trial Court's decision, or the weight of the evidence, was powerless to make its own findings and reverse the case.

This contention ignores Hawaiian decisions as to the scope of review in equity cases decided both before and after the Organic Act and does not square with petitioners' own statement of the law, petitioners conceding, in their

petition, that "it is true that this was an equity case and hence the Territorial Court had the *naked* power to upset the findings of the chancellor . . ." (Pet. pp. 10-11).

A complete answer to petitioners' contention is found in the decisions of the Supreme Court of Hawaii hereinafter referred to.

The power of the Supreme Court of Hawaii in equity appeals to review the entire record, and even though the evidence is conflicting, to draw its own inferences therefrom and to make its own findings of fact as well as rulings of law, even though contrary to those of the trial Court, is well established.

Bradbury v. Bradbury, 29 Haw. 638, 640;
Pinheiro v. Pinheiro, 32 Haw. 659, 664;
Manufacturers Life Insurance Co. v. Von Hamm-Young Company, 34 Haw. 288, 303;
Wilder v. Pinkham, 23 Haw. 571, 572;
Robinson v. McWayne, 35 Haw. 689, 739;
Godfrey v. Kidwell, 15 Haw. 526, 531;
Hung C. Ching v. Fook H. Tong, 38 Haw. 617.

While on conflicting issues of fact the Supreme Court of Hawaii will give great weight to the findings of the trial judge, as the record, it is submitted, shows was done in this case, nevertheless it is well settled that such findings, even though based on conflicting evidence, are not binding on the Supreme Court.

Godfrey v. Kidwell, 15 Haw. 526, 531;
Robinson v. McWayne, 35 Haw. 689, 739;
Pinheiro v. Pinheiro, 32 Haw. 659;
Sumner v. Jones, 22 Haw. 391, 394;
Cha Fook et al. v. Lau Piu, 10 Haw. 308, 312;
U. S. Fidelity and Guaranty Co. v. Vicars, 10 F. 2d 474 (C. A. 9).

C. J. S., Vol. 5, Sec. 1662, p. 753 *et seq.* (Appeal and Error), containing a collection of cases, points out that in many American States, the appellate court in an equity appeal is not bound by the findings of the court below but may find the facts for itself.

None of the cases cited and referred to by petitioners on pages 11 to 13 inclusive of their petition hold that the Supreme Court of Hawaii is bound by the findings of the trial Court in an equity case or may not weight the evidence independently, notwithstanding that such Supreme Court will give great weight to the trial Court findings on conflicting evidence. Respondent has no quarrel with such authorities. Petitioners have failed utterly to show or to point to anything in the record to support their bald contention that the Territorial Supreme Court did not give due weight to the findings of the trial Court.

The very fact that the Supreme Court of Hawaii in *Bank of Hawaii v. Char & Crozier,* 40 Haw. 463 (Cited on p. 13 of Pet.), decided March 2, 1954, almost two years after the decision by that Court on the first appeal in this case, reaffirmed its rule that the findings of fact by the trial court (while not binding on the Territorial Supreme Court) will be given great weight, establishes the fallacy of petitioners' contention that an important principle is involved herein or that the Supreme Court of Hawaii changed its rule as claimed by petitioners.

III.

The United States Court of Appeals for the Ninth Circuit Correctly Held That the Supreme Court of Hawaii Did Not Commit Manifest Error in Reversing the Decision of the Trial Court.

As previously pointed out, petitioners do not in their petition contend that the findings of the Supreme Court of Hawaii were not amply supported by the evidence, or that the decision of the Supreme Court of Hawaii, insofar as it was based upon its own findings of fact was erroneous, or that the interpretation by such court of the legal instruments claimed to have embodied the terms of the oral joint venture was erroneous. Petitioners' contention appears to be that the Supreme Court of Hawaii was powerless to make its own findings in view of their claim that there was "competent evidence" to support the findings of the trial Court, and irrespective as to the equities of the case. It is submitted that under the authorities cited under point II this contention is not well founded and that therefor the United States Court of Appeals correctly affirmed the decision.

The refusal by the Court of Appeals for the Ninth Circuit to interfere in a matter involving the interpretation by the Territorial Supreme Court of its duties and responsibilities under Hawaiian law was thoroughly justified by decisions of this Court.

In *Michigan Trust Co. v. Ferry,* 228 U. S. 346, 354, this Court said:

> "It is a strong thing for another tribunal to say that the local court did not know its own business

under its own laws. Even if no statute or decision of the Supreme Court of the State is produced, the probability is that the local procedure follows the traditions of the place. . . ."

In *Tevis v. Ryan,* 233 U. S. 273, 291, this Court said:

"And we are not disposed lightly to disturb the decision of the Territorial Supreme Court (Arizona) turning so largely, as it does upon the local procedure."

See, also:

Waialua Agricultural Co. v. Christian, 305 U. S. 91;

John Ii Estate, Limited v. Brown, 235 U. S. 342.

Petitioners' contention that the decision of the Court of Appeals for the Ninth Circuit effectively repeals litigants' right to appeal from the Supreme Court of Hawaii is entirely without merit. Respondent has pointed out the fallacy of this argument above. In addition it should be noted that nowhere in their petition is it contended that the decision of the Supreme Court of Hawaii, *insofar as such decision was based upon its own findings and its own interpretation of legal instruments,* was erroneous and nothing in the record supports petitioners' contention that the Court of Appeals, in its decision, in any way limited its right to review decisions of such Supreme Court for manifest error.

IV.

The Decision of the Supreme Court of Hawaii Was Correct.

Meagher testified that with the exception of one provision not material here, the memorandum agreement dated July 22, 1948 [R. 348-351] embodied the terms of the oral joint venture agreement [R. 347-348]. The Supreme Court pointed out that this memorandum agreement did not contain any specific provision prohibiting one joint venturer from selling joint venture property without the consent of the other, the Court therefor holding applicable the rule that generally one joint venturer is empowered to sell and convey joint venture property if such sale is not expressly prohibited and the purpose of the joint venture is the sale of such property [R. 72, and p. 13 of Appendix hereto].

The Supreme Court pointed out that the sale of the scrap related to matters strictly within the scope of the joint venture, the very purpose of which was to acquire and sell scrap, the court saying that sales of scrap "fulfilled the very purpose for which the venture was created" [R. 73, and p. 14 of Appendix hereto].

Patterson testified in effect that the terms of the oral joint venture agreement were substantially the same as those contained in a written joint venture agreement executed after the commencement of the trial [R. 67]. The Supreme Court of Hawaii pointed out that this agreement specifically prohibited sales "at less than the prevailing market price" by one joint venturer "without the consent of the other." The Supreme Court held that the necessary implication of this provision was that sales of scrap at or above the prevailing market price by one joint venturer without the consent of the other was authorized,

the evidence being undisputed that the scrap involved i this litigation was sold to Eastern at the prevailing marke price.

The Supreme Court in so interpreting the written agree ments which formed the crux of the litigation applie settled canons of construction and referred to numerou authorities, all of which support the rules stated.

It is therefor submitted that not only was the decisio of the Supreme Court of Hawaii correct but that in n event can it be said that such decision was *manifestl* erroneous within the rule of the case of *Waialua Ag ricultural Co. v. Christian,* 305 U. S. 91.

Conclusion.

For the reasons herein stated it is respectfully sub mitted that the petition for a writ of certiorari should be denied.

Dated: Beverly Hills, California
December 8, 1955

Respectfully submitted,

A. Joseph Sherwood,

Samuel Sherwood,

Attorneys for Respondent, Eastern Iron and Metal Co., Ltd.,

A. Joseph Sherwood,

Of Counsel.

APPENDIX.

In the Supreme Court of the Territory of Hawaii, October Term, 1951. No. 2764.

Eastern Iron and Metal Co., vs. H. C. Patterson, Patterson Construction Co., Ltd.; William G. Meagher, Industrial Development, an Hawaiian (*sic*) Copartnership; John Doe One, John Doe Two and John Doe Three.

Appeal from Circuit Judge, First Circuit, Hon. P. L. Rice, Assigned Judge.

Argued February 19, 1952. Decided April 9, 1952.

Opinion of the Court by Le Baron, Jr.

Towse, *C. J.*, Le Baron and Stainback, *JJ.*

Corporations—liability—representation of corporation by officers and agents—apparent authority—to contract.

A president of a corporation has apparent authority to make a contract of sale in the name of the corporation so as to bind it, and the purchaser has the right to rely on that authority where the contract is made in the usual course and scope of the corporation's business as adopted by the corporation without dissent in prior transactions of a similar nature.

Joint adventures—rights and liabilities of parties to third persons.

Liabilities of joint adventurers are governed, in general, by rules which are similar or analogous to those which govern the corresponding liabilities of partners, except as they are limited by the fact that the scope of a joint venture is narrower that that of the ordinary partnership.

A sale by one joint adventurer within the scope and authority of the joint venture binds the other, whether disclosed or undisclosed, the knowledge of the one being

the knowledge of the other, and does so even though the one fraudulently purported to sell property as his own and the purchaser dealt with him as an individual.

Opinion

This is a bill in equity for injunction, establishment of constructive trust and incidental relief. Attached to it and made parts thereof are a written agreement for sale and delivery executed at Los Angeles, California, between the petitioner, a foreign corporation, as buyer, and the respondent, Patterson Construction Company, Limited, a Hawaiian corporation, as seller, and a supporting bill of sale contemporaneously delivered to the petitioner by that respondent. The terms of the agreement are that the respondent corporation warranted that it was "the owner * * * and in a position to convey title and possession" of 1,500 tons of cast iron scrap and agree to sell that cast iron scrap to the petitioner at the rate of $50 per ton to be delivered at Los Angeles by a certain steamship line, in consideration of which the petitioner agreed to purchase such scrap at that rate so delivered and to pay $35,000 in advance. The agreement recited that the "bill of sale transferring title as of this date for said merchandise" was delivered as evidence of the warranty expressed in the agreement or contract itself and that "Title is conveyed for the purpose of assuring performance of this contract, but the fact that title is so conveyed shall not affect the liabilities or responsibilities fixed upon the Seller [*i.e.*, the respondent corporation] by reason of the fact that the merchandise is being sold F.O.B. rail cars Los Angeles Harbor." The bill of sale, so delivered and so conveying title, described the 1500 tons of cast iron scrap sold as 600 tons thereof "now located at Waianae Sugar Mill, Oahu," and as 900 tons

"now located at Waimea Sugar Mill, Kauai, Territory of Hawaii." The bill for injunction alleges that the "Petitioner has in accordance with his contract paid to Respondent Patterson Construction Company, Limited, the sum of $35,000 in and for partial payment for said scrap cast iron."

As grounds for equitable relief, the bill alleges (1) that the respondent corporation "is insolvent and has no intention of complying with the terms of said contract or of delivering said merchandise" [*i. e.*, said cast iron scrap]; (2) that the respondent corporation and H. C. Patterson, its president, and respondent Industrial Development, a foreign copartnership, and William G. Meagher, its attorney in fact, "have entered into a plan to defraud petitioner of said merchandise and to convert same to their own use"; (3) that "in furtherance of their plan said Respondents are now in the process of loading said merchandise on a barge or barges * * * to be shipped to an unknown destination * * * [and of] mixing the cast iron scrap sold to Petitioner with other scrap so that the same cannot be identified" and have already done so in part; (4) that "if said scrap is converted as alleged, Petitioner will suffer irreparable damage"; (5) that "Petitioner does not have a complete, full and adequate remedy at law."

The relief prayed in the bill is (1) to require the respondents to show cause why they should not be permanently enjoined from shipping said merchandise to anyone other than to the petitioner at Los Angeles; (2) to issue a temporary restraining order restraining them from con-

veying, transferring, shipping, loading or encumbering any cast iron scrap until the title to the same has been determined judicially; (3) to impress a trust on said merchandise in favor of petitioner; (4) to set aside and cancel any sale of said merchandise made from respondent corporation to any of the other respondents; (5) to issue a mandatory injunction requiring respondent corporation to comply with the terms of said agreement and to give proper security therefore; (6) to order respondents to pay damages sustained by petitioner and his costs, and for such other and further relief as may be appropriate.

On the filing of the bill, a temporary restraining order and an order to show cause issued. After various returns, answers, motions to dissolve the temporary restraining order and other pleadings made by the respondents, the cause came to issue and on stipulation of the parties a trial on the merits was held. At the close of trial the presiding judge in equity, by oral decision and thereafter by interlocutory decree, dismissed the bill in its entirety and denied its prayer for equitable relief but reserved the question of damages which may have been suffered by the respondent copartnership pending disposition of the instant appeal, which the petitioner had indicated that it would take from that decree.

The specifications of error meriting consideration challenge the interlocutory decree and present five paramount and interdependent questions pertaining to the written warranty agreement for sale and delivery. The first question so presented is whether that agreement constitutes a valid and binding contract of sale and purchase upon the respondent corporation and the petitioner as parties thereto. The second is whether the sale made therein was

authorized by the terms of an existing oral agreement for joint venture which the respondent corporation had entered with the respondent copartnership. The third is whether the sale made by the respondent corporation to the petitioner was an exercise of such authority within the scope of the joint venture. The fourth is whether the respondent copartnership is bound by the contract made by the respondent corporation. The fifth is whether those respondents are in breach of contract, and if so, what is the nature thereof and the part played therein by the other respondents?

As to the first question, the written warranty agreement for sale and delivery on its face unquestionably meets every requisite of a valid and binding contract. The respondents claim that it does not bind the respondent corporation because that corporation did not expressly ratify the contract but, according to respondent Patterson's testimony, subsequently rejected it. They do not seriously claim, however, that the respondent Patterson, who signed the contract on behalf of the corporation as its president, did not have authority to bind the corporation to that contract. Nor could they reasonably do so under the undisputed evidence which shows that the contract was executed by the president of the corporation in the ordinary course of the corporation's business as had been adopted by the corporation without dissent in the past, such as in its prior transfer to the joint venture and dealings of a similar nature with the petitioner itself. That evidence establishes that the respondent Patterson, as president and chief administrative officer, had at least apparent authority, if not expressed or implied authority, to bind the corporation to the contract and that the petitioner had the right to rely on that authority. (For col-

lection of authorities see 13 Am. Jur. §890, p. 870.) Being so authorized, the contract did not require ratification. Admittedly, the act of the respondent Patterson was on behalf of the corporation in executing the contract and in perpetrating a fraud upon the petitioner. Under the undisputed evidence, that act as to both phases, assuming *arguendo* it be unauthorized, was impliedly ratified by the corporation when it accepted $35,000 on the contract and retained that money for a corporate expenditure and then rejected the contract without returning or repaying such money and without any intention of doing so. In any event, the respondents Patterson and corporation are estopped to deny the validity and binding effect of the contract. (See 2 Fletcher Cyc. Corp. [perm. ed.] §773, p. 826.) Nor can corporate liability be avoided on the contention that the respondent corporation was under duress because it was in desperate need of money and because the petitioner would not admit or pay what the respondent corporation claimed the petitioner owed it on a prior but separate and distinct transaction. The petitioner at all times consistently claimed that the respondent corporation owed it money on that transaction. At no time surrounding the instant contract did the petitioner threaten the respondent corporation but when pressed by the respondent Patterson merely exercised its legal right to deny the respondent corporation's assertion of prior claim and to assert one of its own, the presiding judge in his oral decision correctly pointing out that those conflicting claims are not susceptible of determination in this case but require an accounting beyond the issues thereof. The exercise of that right in no way affected the validity and binding effect of the contract or compelled the respondent Patterson, on behalf of the respondent corporation, to enter into that contract so as to constitute duress,

even though the corporation's financial distress may have been the motive for the perpetration of fraud upon the petitioner. Nor are there present in this case any of the concomitants of duress or any other elements of lack of good faith on the part of the petitioner as a bona fide purchaser. Thus, that contention of duress is untenable and so are the other contentions of the respondents in challenging, as they do, the validity and binding effect of the written contract by parol evidence contrary to its terms and in contradiction of its clear and unambiguous language. The first question is therefore answered in the affirmative.

As to the second question, the evidence is undisputed that respondent corporation and respondent copartnership, by oral agreement, entered into a continuing joint venture for the purchase, preparation and sale of scrap iron one month before the written agreement was executed and the supporting bill of sale delivered. The parties to the joint venture, however, intended that such oral agreement would be supplemented by a complete and formal agreement in writing at some time in the future and in the meantime would be subject to change. They entered into a written agreement for joint venture of that nature four days after the petitioner filed its instant bill in equity but dated it as of the date of the oral agreement. The terms of both agreements for joint venture prove the creation of the joint venture which existed at all times within the ambit of this case. The respondent corporation divorced itself from the scrap iron business by transferring to the joint venture all its scrap iron at the approximated actual value of $97,158.10 and the respondent copartnership contributed $115,000 in cash to the joint venture, the parties agreeing to share equally in the net profits and losses. Nevertheless, the terms of the

oral agreement, in so far as they authorize one joint adventurer to sell without the consent of the other, are in dispute between the respondent Meagher as attorney in fact for the respondent copartnership and the respondent Patterson as president of the respondent corporation.

Respondent Meagher testified in effect that the oral agreement for joint venture had been previously set forth in a written memorandum but that, by mistake, the name of a third party, a foreign corporation of which he was president, was substituted for that of the respondent copartnership of which he was attorney in fact, the mistake presumably arising from the inadvertent use of a form agreement. He further testified that such memorandum was regarded by the respondent parties as tentatively embodying the terms of their oral agreement until a complete and formal contract could be executed. The respondent copartnership introduced into evidence that written memorandum in which there is absent any specific provision prohibiting one joint adventurer from selling without the consent of the other. In the absence thereof, it is presumed that each co-adventurer was the authorized agent for the joint venture to sell as a transaction of the joint venture, despite the provision contained in the written memorandum that "Sole authority and responsibility for the operation of this Joint Venture shall be in a Committee composed of one (1) representative from each party to this agreement; and any and all decisions made by this Committee shall be binding on the parties to this agreement" where, as here, there is nothing to indicate a contrary conclusion and no evidence tending to show that such a committee was in existence or made any decision whatsoever. The testimony of respondent Meagher, so corroborated, is deemed to be better evidence

of the terms of oral agreement than the testimony of the respondent Patterson, who admittedly intended to defraud the petitioner. Indeed, had the mistake of party not been made the written memorandum would have been in lieu of the oral agreement or a reduction to writing of it. Under that view of the evidence, either joint adventurer was authorized to sell without the consent of the other and the patricular sale in question would be authorized, provided only that it was within the scope of the joint venture.

The respondent Patterson testified in effect that the terms of the oral agreement for joint venture were substantially the same as those in the subsequent written agreement which specifically prohibited sales "at less than the prevailing market price" by one party "without the consent of the other," the necessary implication being that sales at or above the prevailing market price by one party without the consent of the other were authorized. That specific provision controls, as the applicable provision, rather than the general provision against incurring "any indebtedness on behalf of the joint venture" or obligating "it in any way" by one party. Nor does the other general provision apply, which places "Sole authority and responsibility for the operation of the joint venture" in a committee and makes all its "decisions * * * binding on the parties" where, as here, there is no evidence tending to show, and the respondents have failed in their burden of proof to show, that such committee, if one existed and functioned, made any decision whatsoever. Pertinent to the application of the authority to sell at the prevailing market price under the necessary implication of such specific provision, the only evidence in the record of the prevailing market price at Los Angeles, the place of

delivery, at the time of sale for the particular type of cast iron scrap sold is the undisputed testimony of the president of the petitioner, an experienced dealer in scrap iron, that such prevailing market price at that place and time was $50 per ton, which is the rate of contract price set forth in the written agreement for sale and delivery. Thus, under that view to the same extent as under the other view, the sale in question would be authorized, it being at and not less than the prevailing market price and not requiring the consent of the other party under the terms of either the oral or written agreement for joint venture. The second question is therefore answered in the affirmative.

As to the third question, it is true that the respondent corporation, prior to its entry into the contract and delivery of the supporting bill of sale for 1,500 tons of cast iron scrap, had transferred all its scrap iron, inclusive of cast iron scrap, to the joint venture. But it is equally true that such respondent was then joint owner with the respondent copartnership of all the joint venture's scrap iron, inclusive of cast iron scrap so transferred or otherwise acquired, and, as already indicated, had the authority to sell that property or any part of it wherever located. It follows therefrom that the respondent corporation, being such joint owner, was "in a position to convey title and possession" as warranted, and exercised its authority within the scope of the joint venture when binding itself to the contract and bill of sale provided that the particular property involved constituted joint venture property. That property is specifically indentified by those documents to be 1,500 tons of cast iron scrap, which the bill further describes by locating 600 tons thereof at Waianae and 900 tons

at Waimea. Nor is that description disturbed or the expressed warranty vitiated by the fact, as later proved at the trial, that only 216 and 200 tons of cast iron scrap were actually located at those places at the time of sale to the petitioner. That fact, rather, goes to the question of breach of expressed warranty as to quantity. It is sufficient for the purpose of the question under consideration to decide whether the 416 tons of cast-iron scrap actually so located constituted joint-venture property.

The respondents admit that the evidence proves that the 216 tons of cast-iron scrap actually located at Waianae at the time of sale to the petitioner constituted joint-venture property, but they contend that the 200 tons at Waimea was then the property of a third party, as a part of his sugar mill, rather than the property of the joint venture. They further contend that those 200 tons never became property of the joint venture so as to be subject to sale to the petitioner. The undisputed evidence, however, does not show that the joint venture was so bypassed by the parties thereto with respect to such property. That property was a subject of transfer to the joint venture by the respondent corporation, even though that respondent was in the process of negotiating for its purchase and thereafter continued negotiations to purchase it for the joint venture but was financially unable to consummate such purchase. Nevertheless, during that period of negotiation the parties to the joint venture after the transfer treated the property as if it were joint-venture property. This is evidenced by the fact that during such period the joint venture itself dismantled the sugar mill, prepared the metal secured therefrom as cast-iron scrap, loaded it on a barge and shipped it. While in the course of being so handled by the joint

venture, but after the sale to the petitioner and notice of petitioner's claim, that property was purchased by the respondent copartnership in its own name when it became obvious that the respondent corporation was not able to purchase it for the joint venture. Under those facts and circumstances, the property in question at the time of sale to a third party by one joint adventurer is deemed to have been joint-venture property and its acquirement by the other deemed to have been made for the joint venture, it being immaterial that title was taken in the name of the purchasing joint aventurer, who is regarded as holding it as trustee for the joint venture. (See Cassidy v. Gould, 860 Okla. 217, 208 Pac. 780.) Thus, the 200 tons at Waimea at the time of sale to the petitioner constituted joint-venture property, even though the respondent copartnership thereafter may have had a joint-adventurer's lien upon it for its purchase price as against the respondent corporation but not as against the petitioner as an intervening third-party purchaser under a warranty sale, such lien being strictly between the parties to the joint venture. The contract and bill of sale, being exercises of the same authority to sell and covering property actually constituting joint-venture property at the time, therefore demonstrate that the transaction as a whole was within the scope of the joint venture, the expressed warranty being reasonably necessary to complete the sale in furtherance of the common enterprise and its purposes. The third question is therefore answered in the affirmative.

As to the fourth question, the law is well settled that the "* * * liabilities of joint adventurers are governed, in general by rules which are similar or analogous to those which govern the corresponding * * * liabilities

of partners, except as they are limited by the fact that the scope of a joint adventure is narrower than that of the ordinary partnership. Accordingly, as a general rule, each of several joint adventurers has power to bind the others and to subject them to liability to third persons in matters which are strictly within the scope of the joint enterprise. Thus, a member of a joint adventure can bind his associates, whether disclosed or undisclosed, by such contracts as are reasonably necessary to carry on the venture." (30 Am. Jur., §41, p. 699.) This is particularly true where a joint adventurer is not expressly forbidden to sell within the joint-venture purpose of selling or has been given authority to do so by necessary implication as in this case. Each member of a joint venture acts individually and as agent for other members within the general scope of the enterprise or in furtherance of the business in which they are engaged. Being closely akin to a partnership, the law of partnership and principal and agent underlies the conduct of the venture and governs the rights and liabilities of the joint venture, and of third parties as well. Generally, one adventurer is empowered to sell and convey property involved in the joint venture, if such sale is not expressly prohibited and is in furtherance of the purposes of the joint enterprise. (See Dobbins v. Texas Co., 136 Okla. 40, 275 Pac. 643; Bond v. O'Donnell, 205 Ia. 902, 218 N. W. 898; Federal Underwriters Exchange v. Coker, [Tex. Civ. App., 1938], 116 S. W. [2d] 922; Proctor, *et al.* v. Hearne, 100 Fla. 1180, 131 So. 173; Renig v. Nelson, 199 Wis. 482, 227 N. W. 14.)

The obligations of sale, delivery and warranty incurred in the case at bar as to 1500 tons of cast-iron scrap obviously related to matters strictly within the scope of the

joint venture to sell scrap iron and were reasonably necessary to carry on the venture in furtherance of the common enterprise. In fact, they fulfilled the very purpose for which the venture was created. That these obligations were binding on the respondent corporation and on the respondent copartnership as joint adventurers is irrefutable under the principles above enunciated and under all the equities of the case. The fourth question is therefore answered in the affirmative.

It is no defense to say that the respondent copartnership was undisclosed or that the respondent corporation purported to sell its own property and the petitioner purchased on that assumption without knowledge of the joint venture, the test being that the sale was within the scope and authority of the joint venture as well as in furtherance of the business in which the joint adventurers were engaged. (See Proctor v. Hearne, *supra.*) Neither can the respondent copartnership avoid liability because it had no actual knowledge of the sale at the time it was made, the knowledge of one joint adventurer acting within the scope and authority of the joint venture being the knowledge of all and what would bind the one would bind the others. (See Robertson v. Merwin, 139 N. Y. S. 726.) Nor can it do so because the respondent corporation secretly pocketed the partial payment of $35,000 on executing the sale and the respondent copartnership received no benefit therefrom, it having the right to share therein upon an accounting with its coadventurer as well as in the final payment of $40,000 on delivery of the entire 1500 tons of cast-iron scrap sold had the contract been fully performed. (See Driver v. Brunemar, 40 App. Cas. [D. C.] 105; Selwin & Co. v. Waller, 142 N. Y. S.

1052; Reyer v. Blaisdell, 26 Colo. App. 387, 143 Pac. 385; Perry v. Morrison, 118 Okla. 212, 247 Pac. 1004.)

The written agreement for sale and delivery and supporting bill of sale are thus binding upon the respondent copartnership to the same extent as they are on the respondent corporation, even though respondent corporation may have perpetrated a fraud upon the petitioner and even though the respondent copartnership may be innocent of that fraud. The underlying principle of partnership and principal and agent controls, so that one joint adventurer is liable for the fraud of the other within the scope and authority of the joint venture. Nor are the obligations of sale, delivery and warranty in this case divisible, but in their entirety are binding obligations upon both parties to the joint enterprise.

The undisputed evidence proves that the respondents corporation and copartnership are in total breach of all the terms of contract. Admittedly, the respondent corporation was insolvent at the time of suit and is now a bankrupt. It never had any intention of complying with any of those terms. Nor did the respondent copartnership ever have any intention of doing so. On the contrary, both respondents, in conjunction with the other respondents as their agents, before and at the time of suit were acting in defraud of the petitioner by intentionally misapplying and converting whatever cast-iron scrap was property of the joint venture and subject to sale by one coadventurer and did so in contravention of the contractual rights and title of the petitioner. Indeed, the cast-iron scrap originally located at Waimea was lost at sea while being so misapplied and converted before suit. The cast-iron scrap at Waianae was likewise handled and was

being loaded on a barge by the respondents when restrained at the time of suit. That cast-iron scrap at Waianae would have been a proper subject of equitable relief for injunction and constructive trust in favor of petitioner had not such property been released from the operation of the restraining order, by stipulation of the parties and by a modified restraining order, and sold as a transaction of the joint venture at San Francisco at the rate of $55 per ton, the petitioner filing a bond in the sum of $5000 for costs and damages to the respondents corporation and copartnership, conditioned upon petitioner's failure to sustain its action, and those respondents filing a reciprocal bond signed by the other respondents as agents for them in the sum of $10,000 for costs and damages to the petitioner, conditioned upon its sustaining its action. The bond of those respondents as to damages thus by such mesne proceedings operates in lieu of the equitable relief for injunction and constructive trust. The next step in logical sequence of equitable relief would be to order the respondents to pay petitioner's damages for which they are jointly severally liable. The respondents corporation and copartnership come within that liability for their total breach of contract as parties to the joint venture. The respondent Patterson comes within it because he is personally liable for his fraud and for his furtherance thereof by participating in the misapplication and conversion of such property of which he had control as agent and chief administrative officer of the respondent corporation. (See 3 Fletcher Cyc. Corp. [perm. ed.] §1143, p. 727.) The respondent Meagher comes within it because he is likewise liable for his furtherance of that fraud by also participating in the misapplication and conversion of such property as agent and

sole representative in the Territory of the respondent copartnership, a foreign copartnership, if not its *alter ego* solely responsible for its breach. (See 3 Fletcher Cyc. Corp. [perm. ed.] §§1142, 1143, pp. 726, 727; Tiffany on Agency [2d ed.] §136, pp. 355, 356, 357.) As already indicated, the undisputed evidence, largely adduced by the respondents themselves, proves the case for the petitioner and conclusively establishes the material allegations of the petitioner's bill.

At this juncture it is proper to consider the contention of the respondents that equity has no jurisdiction to entertain the petitioner's cause and that, therefore, the interlocutory decree, in dismissing the bill and in denying equitable relief, should be sustained. In support of that contention the respondents allege that the presiding judge in equity erred in finding, as he did, (1) that the petitioner has no adequate remedy at law, and (2) that the petitioner is entitled to sue in a territorial court upon the warranty agreement for sale of personal property in the Territory and delivery of that property to California because it constitutes a transaction in interstate commerce, irrespective of the fact that the petitioner is a foreign corporation which otherwise may be doing business in the Territory without complying with statutory requirements for such a corporation. The first finding is patently a sound one under all the facts and circumstances of this case inclusive of the allegations in the bill itself. Likewise is the second under the principles enunciated by this court in Cannell & Chaffin v. Deering, 26 Haw. 74. (See Sioux Remedy Co. v. Cope, *et al.*, 235 U. S. 197; Mergenthaler Linotype Co. v. Spokesman Pub. Co., 127 Ore. 196, 270 Pac. 519; Continental Supply Co. v. Hoffman, 144 S. W. [2d] 253, 17 Fletcher Cyc. Corp.

[perm. ed.] §§8415, 8424, pp. 336, 367.) The contention of the respondents is therefore without merit.

The petitioner's specifications of error presenting the material questions, which have been answered in the affirmative herein, are sustained. Accordingly, the interlocutory decree is reversed and the cause remanded below for further proceedings to determine the nature and extent of the appropriate, just and equitable relief to be granted to the petitioner by a final decree in its favor consistent with this opinion.

S. Shapiro (E. Berman with him on the briefs) for appellant.

B. H. Levinson (Levinson & Cobb on the brief) for appellees W. G. Meagher and Industrial Development.

J. O. Hughes for Patterson Construction Co., Ltd. (submitted on his brief). [108]

[Title of Supreme Court and Cause.]

DECISION ON APPEAL

In the above cause, pursuant to the opinion of the above-entitled Court rendered and filed on April 9, 1952, Petitioner's specifications of error presenting the material questions, which have been answered in the affirmative in said opinion, are sustained. Accordingly, the interlocutory decree is reversed and the cause remanded below for further proceedings to determine the nature and extent of the appropriate, just and equitable relief to be granted to the Petitioner by a final decree in its favor consistent with said opinion.

Dated at Honolulu, T. H., this 25th day of April, 1952.

By the Court:

[Seal] /s/ LEOTI V. KRONE,
Clerk.

Approved:

/s/ LOUIS LEBARON,
Associate Justice.

[Endorsed]: Filed April 25, 1952. [109]